Governor Daniels' Property Tax Plan:
Fair, Far-Reaching and Final Property Tax Relief for Hoosier Homeowners

Questions and Answers about the Governor's Plan

Why a 1% cap on homeowner property taxes?
The Governor believes fairness requires that Hoosier homeowners should never pay more than one cent of every dollar of their homes' value on property taxes. Currently, more than half of the homeowners in our state pay property taxes in excess of that limit. The Governor's plan will reduce property taxes for all homeowners, and the cap (also referred to as a "circuit breaker") ensures that those taxes can never increase beyond the 1% ceiling. Thus, homeowners will always know the maximum property tax that they will have to pay on their homes. This will provide both predictability and reassurance that their property taxes will never become an undue and unaffordable burden that could force them out of their homes.

How much will property taxes be reduced under the Governor's plan?
The size of homeowner property tax reductions will vary across the state, depending on local circumstances. However, we expect the average homeowner will get an overall property tax cut of about one-third as a result of the Governor's plan.

How will property tax relief be provided in 2008?
Every Hoosier homeowner will get property tax relief in 2008. $700 million in new property tax relief will be provided in the form of an increased homestead credit, which reduces the amount of property tax owed by homeowners. This is in addition to the $250 million in relief already provided by the General Assembly and funded by license fees for new slot machines at Indiana's two horse tracks.

How will property tax relief be provided in 2009?
Every Hoosier homeowner will get property tax relief in 2009. About $1 billion in new property tax relief will be provided. The relief will come in the form of lower tax rates, as the state assumes responsibility for paying costs currently borne by property taxpayers, an expanded homestead deduction (see below), and the introduction of a 1% cap (also referred to as a "circuit breaker") on homeowner property taxes. The size of 2009 tax bills will vary across the state, depending on local circumstances.

How is this plan different than 2002, when the General Assembly also raised sales taxes to fund property tax relief?
The Governor's plan differs in numerous and fundamental ways from all previous attempts to resolve Indiana's property tax problems, including the plan adopted by the General Assembly in 2002. The Governor's plan not only cuts property taxes to provide immediate relief to homeowners, but also caps those taxes to prevent their otherwise inexorable future growth. The Governor's plan proposes strict controls on local spending, including limits on total spending growth, review and approval of the spending plans of all local taxing units, and public referenda on all major capital expenditures. None of these elements were contained in previous property tax plans. Moreover, the Governor's plan provides an alternative to the state's troubled system of property tax assessment, which has resulted in unfair and inequitable assessments in parts of the state. The Governor's plan will cut property taxes, permanently cap them to prevent future increases, and also control local spending growth.

What do you mean by an expanded homestead deduction?
Today, every homeowner is eligible for a standard homestead deduction equal to one half of their home's assessed value up to a maximum of $45,000. The Governor's property tax plan will increase that deduction by an additional 35% of a property's assessed value after the standard deduction is taken. Example: $200,000 home. Standard deduction = $45,000. Net AV= $155,000. New deduction = $54,250 ($155,000 x 0.35). Final AV for tax purposes = $100,750 ($155,000 - $54,250).

Will other deductions of assessed value (elderly, disabled, abatement, etc.) continue?
Yes. Deductions for eligible property taxpayers will continue. Abatement for business investment will remain a local government decision.

Why can't the Governor's full plan take effect in 2008?
Local governments are already working on their 2008 budgets, so implementing caps for that budget year just isn't possible. It would also be difficult for the state to start paying for costs now paid locally in the middle of a fiscal year. The Governor's plan gives local governments time to prepare for the changes that it will require in the way they operate.

If a home's assessed value increases, won't my "capped" bill continue to rise?
That depends. An increase in assessed value does not automatically mean an increase in tax bills. Remember, property tax bills equal assessed value times total tax rates (Bill =AV*Rate). If tax rates decline, then an increase in AV will not necessarily mean an increase in tax bills. But in any case, every Hoosier homeowner's property tax bill will be permanently capped at 1%. No homeowner will ever again pay property taxes of more than one cent of each dollar of their home's assessed value.

Why a 3% cap on business? Is that fair?
The 3% cap or circuit breaker on business property is already law – the Governor's plan simply moves up its implementation from 2010 to 2009. Hoosier businesses benefited greatly from the end of the property tax on inventories enacted in 2002, so the Governor's plan focuses on homeowners who have not had similar permanent assistance with their property tax burdens.

Is this a tax increase on business?
No. This plan is cost neutral to business property taxpayers. It does not increase or lower business property taxes from what they would be without the Governor's plan.

Why does the Governor propose to make these caps part of the State Constitution?
The Governor wants to ensure that the property tax relief he is providing will be permanent. Unfortunately, over the 35 years since the Bowen property tax reform plan, our state has continued to struggle with rising property taxes, despite numerous efforts by the General Assembly to fix the problem. A constitutional amendment that permanently caps the amount of property taxes that Hoosier homeowners, owners of residential rental properties, and businesses have to pay will prevent property taxes from ever again becoming an unaffordable burden on local taxpayers.

How long will it take to put the caps into the Constitution?
It will be no earlier than 2010 before the property tax caps can become part of the Indiana Constitution. Any constitutional amendment must be passed by two separately-elected General Assemblies, and then ratified by the voters in a general election. Until the amendment is successful, the property tax caps would be in effect by statute, and could only change via an affirmative vote of the Indiana General Assembly.

How will agricultural land be assessed?
There will be no change to the assessment of agricultural land, which by statute is assessed according to its use value in agriculture rather than its market value. (This is how agricultural land is assessed in most states.) But farmers will benefit substantially from the homeowner property tax relief provided in the Governor's plan, as about 40% of agricultural property taxes are paid on farm houses.

Will these property tax caps impact local services?
In some counties with high tax rates, the caps will reduce the amount of property taxes collected. This would also be true absent the Governor's plan, as property tax caps already approved by the General Assembly begin to take effect in 2008 and beyond. The caps under the Governor's plan are lower, but the state is also picking up a significant share of costs currently paid by local property taxes (schools, child welfare levies), so local expenses will decrease. Some local units of government will need to find ways to reduce spending and will have a year to do so. Counties may also use the local income tax (LOIT) to increase revenues if necessary.

Why should the state pay for K-12 operating costs, including transportation?
The state currently pays for about 85% of school general fund expenses on average across the state, and about 20% of school transportation costs. So, the costs of operating our schools are already primarily a state responsibility. The Governor's plan pays for the balance of school general fund and transportation expenses in order to take the burden of these costs permanently off of local property taxpayers – especially homeowners.

Does this plan mean that the state will take control of schools?
No. As noted above, the state already pays for most of the school general fund and a share of the transportation fund, but this has not affected local control over school decision-making. The same will be true under the Governor's plan. The state will pay for school general fund and transportation expenses, but local school districts will maintain control over school policies, teacher contracts, and transportation services.

What is the school rainy day fund and why is the fund being increased?
Today, the state puts a portion of its combined general fund cash balances into the tuition support reserve fund. Tuition support payments from the state to local school districts are evenly distributed each month. State tax revenues, however, may fluctuate from month to month. The reserve fund ensures that the state can manage its monthly obligations to school districts. Because the state is assuming additional costs of the school general fund, the tuition support reserve fund is being increased from the current $316M to $366M. The additional $50M will be allocated to this reserve from state general fund balances, which are in surplus.

Why should the state pay for the costs of caring for abused and neglected children (the child welfare levy)?
There are two reasons why it makes sense for the state to pay these costs. First, the state sets the policies regarding the care for abused and neglected children but counties pay the costs of that care. That system has created considerable tension between state and local governments. The Governor believes that the state should rightfully assume the responsibility of paying the costs of programs it mandates for the care of these vulnerable children, and has previously proposed legislation to that end. Second, the child welfare levy is a significant burden on local property taxpayers, especially homeowners, and the Governor's plan relieves that cost burden and thus makes it possible to dramatically reduce homeowner property taxes.

Why does the Governor's plan eliminate the Property Tax Replacement Credit (PTRC)? Wasn't that a key element of the Bowen property tax reform plan?
The Property Tax Replacement Credit (PTRC) is essentially a state-funded subsidy to local governments to reduce property taxes. Decades of state subsidies through the PTRC have blurred the lines of funding responsibility between state and local government. PTRC payments have increased dramatically – today, 3 cents of the state's 6 cent sales tax goes to funding these subsidies, which total more than $2 billion. The Governor believes it makes more sense to use these funds to pay directly for expenses currently borne by local property taxpayers, rather than continuing to subsidize overall local spending, which has grown dramatically over the past 35 years since the Bowen plan was adopted. That is why he has proposed that the state assume responsibility for paying the balance of school general fund expenses, as well as the cost of school transportation and child welfare. The Governor's proposal to sort out these funding responsibilities will improve transparency and accountability for the local property taxpayer.

Why didn't the Governor choose to eliminate all or homeowner property taxes?
The Governor gave careful thought to eliminating the property tax, examining this alternative thoroughly, but ultimately concluded it would be too risky. Property taxes fund local governments and schools and currently total more than $9 billion; replacing that amount of revenue would require very large increases in either income or sales taxes, or both. This would have very negative impacts on the state's economy as working Hoosiers and most businesses would see a significant tax increase, which would depress economic activity and encourage Hoosiers to make large purchases in neighboring states. Even eliminating homeowner property taxes only, though superficially attractive, would have required too great an increase in sales or income taxes for the Governor to accept. The Governor's plan to cut and cap property taxes is a more sensible and realistic plan that offers Hoosier homeowners significant property tax reductions and the peace of mind that their taxes will never be more than one cent on every dollar of their homes' assessed value.

Why didn't the Governor wait for the Shepard-Kernan Commission to present recommendations?
The Shepard-Kernan Commission was created to examine long-term proposals to reform and restructure local government to make it more effective and efficient; it was not formed to solve the state's property tax crisis. The commission's work should help local governments control future expenses and local taxes. Step one is property tax relief; step two should be long-term structural reform.

How can you be sure the Governor's plan will control local spending?
The Governor has built in multiple local spending controls. Spending cannot grow faster than county income (based on a rolling six-year average) and new construction projects cannot be initiated without an affirmative vote from residents. There are no loopholes or exemptions such as those that today enable local units of government to evade current limits on property tax levies. As added protection, the permanent tax caps limit the amount of property tax revenue available to local governments.

What will local governments do in the event of exceptional circumstances (such as natural disasters) that require spending beyond the required income-growth limits?
The Governor's plan allows the spending growth limitation to be waived on approval of community residents via a referendum. This will enable local governments to respond to situations where exceptional spending is deemed necessary by the community.

Why does the Governor's plan call for review of local budgets even if those budgets are approved by elected representatives such as school boards?
One of the biggest problems with our current system of funding local government is the absence of a single point of accountability for all spending decisions that affect local taxpayers. Currently, taxpayers pay a cumulative rate that is the sum of all the taxing units in their community. No single entity has responsibility for considering the total impact of all of the individual taxing decisions made by the local units. This is a key reason why property taxes have increased so rapidly. The Governor's plan requires the Tax and Capital Control Board in each county to review and approve the budgets of **all** taxing units in the county, thus ensuring that the overall tax burden placed on taxpayers is taken into account before spending increases are permitted.

Why are local boards and referenda on capital projects necessary if total local spending is limited to personal income growth?
The limits in the Governor's plan are on total local spending. Since total spending is derived from the spending decisions of a variety of taxing units, it makes sense to give one entity – the Tax Board – responsibility for setting spending priorities and ensuring that the taxing units collectively do not exceed the county spending threshold. Referenda on capital projects give local residents more direct say in major spending decisions that will have the biggest impact on their local tax bills.

What will the capital/debt issuance threshold be for a referendum?
The Governor's plan does not include a specific threshold for referenda. The governor will consult with the legislature to determine a threshold.

How does the Governor's plan fund the property tax relief it is providing? How will the state pay for the local costs (K-12 operating and transportation, and child welfare) it is assuming?
The Governor's plan is funded in the following manner:

a. A one penny increase in the state sales tax, which will generate approximately $928 million in 2009;
b. Wagering taxes already earmarked for property tax relief from new slot machines at Indiana's two horse tracks, which will generate approx. $100 million in 2009;
c. Use of the Property Tax Replacement Credit (PTRC) fund, which will equal approximately $2.028 billion in 2009
d. A prudent amount of the state's budget surplus, expected to be approximately $80 million in 2009

The revenue and expenses involved in the Governor's plan may be considered as follows:

2009 Revenue (MM)		**2009 Expenses (MM)**	
1 cent sales tax	$ 928	School General Fund	$2,159
Wagering tax	$ 100	School Transportation	$ 495
PTRC Funds	$2,028	Child Welfare	$ 474
Funds from surplus	$ 80	Increase in Rainy Day Fund	$ 50
Funds from combined balances	$ 50	State Fair and Forestry	$ 8
Total	$3,186	Total	$3,186

Is this plan structurally balanced from the state's perspective?
The plan uses some of the state surplus earned over the past three years to fund the first two years of property tax relief. After that, anticipated sales taxes, already earmarked gaming funds, and growth from other state revenues should be sufficient to pay for the plan.

How does 1 penny of sales tax pay for so much?
In addition to the one cent sales tax increase, which is expected to generate almost $1 billion in new revenue each year, the plan is also funded by the $2 billion in PTRC funds that currently subsidize local spending, and the already earmarked tax receipts from new slot machines at Indiana's two horse tracks.

Will we lose business to other states because of the sales tax differential?
Michigan and Kentucky currently have a 6 percent sales tax rate. Ohio and Illinois have local option sales tax, putting bordering county rates at 6.5-7.0% (6.75% avg) in Ohio and 6.25-7.75% (6.55% avg) in Illinois. So, the sales tax differential is a modest 1/4 to 1 point, which should not impact inter-state commerce.

Why didn't the Governor propose an income tax increase to fund this plan, especially since he has previously promoted local option income taxes?
The Governor does not support a statewide increase in the income tax, because of its potentially negative impact on economic growth and small business. However, a local option income tax is a legitimate source of funding for counties looking to diversify their sources of revenue and reduce their reliance on property taxes. The Governor's plan does not require counties to increase their local income taxes; in fact, some counties will receive enough property tax relief that they might be able to reduce their income tax rates or provide additional property tax relief. (See below.)

What about the counties that adopted the 2007 LOIT?
Counties that adopted the 2007 LOITs will have the ability to repeal those income taxes or keep them and either further reduce homeowner property taxes or apply the benefit to other classes of property within the county.

Why does the Governor's plan replace elected assessors with a single appointed assessor in each county?
Accurate and equitable assessments of property values are critical to public confidence in the property tax system. Unfortunately, Indiana's assessment system has long been criticized by academic experts, specialists, and taxpayers. Currently in our state, there are 1,100 officials (1,008 townships and 92counties) responsible for assessing property, so it is no wonder assessment values vary widely, both among and even within counties. There are simply too many assessors in Indiana, and not enough of them have received adequate professional training. It makes sense to place the responsibility for assessments in each county with a single appointed official of demonstrated professional skills and competence.

How will Indiana's property tax burden compare with that in other states if the Governor's plan is adopted?
We estimate that Indiana will rank among the 10 states with the lowest property tax burden on homeowners if the Governor's plan is adopted. Today, Indiana ranks 33rd (17th best) among the states in terms of homeowner tax burden.